

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Periodic Reporting
(Proposal Seven)

Docket No. RM2015-16

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL SEVEN)

(Issued August 11, 2015)

I. INTRODUCTION

On August 5, 2015, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes to analytical principles relating to the Postal Service's periodic reports.¹ Proposal Seven is attached to the Petition and proposes an analytical method change relating to the avoided costs for Flats Sequencing System (FSS) workshare discounts. Petition at 1.

This Petition was filed in response to Order No. 2472, which directed the Postal Service "to file a proposed methodology for determining the costs avoided for the Presorted

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), August 5, 2015 (Petition).

FSS workshare discounts, as described in the body of [Order No. 2472], within 90 days of the date of [Order No. 2472].”²

II. SUMMARY OF PROPOSAL

Under Proposal Seven, the Postal Service seeks to address the avoided costs relating to FSS mail. Petition, Proposal Seven at 1. The Postal Service bifurcates Proposal Seven into the Mail Processing and the Delivery elements of the avoided costs for FSS workshare discounts. *Id.*

A. Section One: Proposed Method for Calculating Mail Processing Cost Avoidances

The Postal Service seeks to modify the modeling methodology used in the USPS-FY14-11 (Docket No. ACR2014) Standard Mail Flats Mail Processing Cost Model to estimate the mail processing cost avoidances of FSS presorted Standard Flats. Petition, Proposal Seven, Section One at 1. The Postal Service expands the Standard Mail Flats Mail Processing Cost Model to identify the unique characteristics and flows of FSS-prepared Standard Flats. *Id.* As part of Library Reference USPS-RM2015-16/1 filed with the Petition, the Postal Service provides three models supporting this section of Proposal Seven. *Id.* The Postal Service also proposes changes to the USPS-FY14-11 (Docket No. ACR2014) Periodicals Flats Mail Processing Cost Model. *Id.* at 4.³

There are nine modifications proposed by the Postal Service in Section One of Proposal Seven, all of which apply to the Standard Mail Flats Cost Model. Petition, Proposal

² Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015, at 62 (Order No. 2472).

³ The proposed changes to the Periodicals Flats Mail Processing Cost Model were filed in Docket No. RM2015-18. See Docket No. RM2015-18, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), August 5, 2015, Attachment at 2.

Seven, Section One at 4. Two of the proposed modifications also apply to the Periodicals Model. *Id.*

1. Revision of the Methodology Used to Estimate the Proportion of Flats Processed in Mechanized Incoming Secondary Operations (Modification One)

The Postal Service presents a process to estimate the proportion of flat-shaped mail processed in mechanized incoming secondary operations. *Id.* at 4–8. Although over 98 percent of flats destinate in the service territories of plants that have mechanized equipment, certain facilities choose to perform the incoming secondary sortation manually for a variety of reasons, including low volume, service commitments, and operating window/capacity restraints. *Id.* at 4–5. The Postal Service asserts that its proposed methodology accounts for the two different technologies performing mechanized incoming secondary sortation—the Automated Flats Sorting Machine 100 (AFSM 100) and the FSS. *Id.* at 5. The Postal Service also represents that its methodology excludes letter shaped mail worked in flat operations, pieces entered in Carrier Route bundles that have broken and therefore require incoming secondary sortation, rejects from FSS operations, and pieces destinating in FSS zones that are not sorted on the FSS. *See id.* at 5–8. This modification applies to both the Standard Mail and Periodicals Flats Mail Processing Cost Models.

2. Changes to Bundle Processing Flows to Account for Increased Mechanized Incoming Secondary Piece Processing

The Postal Service proposes to adjust the bundle flow formulae for consistency with the mechanized incoming secondary piece distribution calculated under Modification One. *See id.* at 8–9. The Postal Service states that bundles for mechanized incoming secondary sortation will not incur an incoming secondary bundle sort. *See id.* The Postal Service explains that bundles for zones worked manually will incur an additional bundle sort at the delivery unit. *Id.* at 9. This modification applies to the Standard Mail Flats Mail Processing Cost Model.

3. Introduction of FSS Bundle Flows

The Postal Service assumes that no FSS bundles will incur a sortation at the delivery unit. *Id.* Aside from this assumption, the Postal Service calculates the bundle flows for FSS bundles using the same methodology used for other bundle types. *Id.* This modification applies to the Standard Mail Flats Mail Processing Cost Model.

4. FSS Presort Piece Model and Costs

The Postal Service states that FSS presorted pieces flow directly into piece sortation on the FSS, bypassing outgoing primary, outgoing secondary, managed mail, and incoming primary operations. *Id.* The Postal Service represents that it models such FSS presorted pieces using the same basic methodology previously used to model piece flows. *Id.* This modification applies to the Standard Mail Flats Mail Processing Cost Model.

5. Updating 5-Digit Piece Model and Costs

The Postal Service represents that 5-Digit pieces do not flow into FSS operations and proposes to update the 5-Digit piece model to reflect this flow. *Id.* at 10. The Postal Service represents that the relative incidence of manual incoming secondary sortation is higher for 5-Digit pieces by a factor of one over one minus the FSS coverage factor. *Id.* This modification applies to the Standard Mail Flats Mail Processing Cost Model.

6. Updating Mixed ADC, ADC, 3-Digit for Incoming Secondary Coverage

The Postal Service proposes to update the area distribution center (ADC), mixed ADC, and 3-Digit models to incorporate the recalculation of the mechanized incoming secondary sortation. *Id.* This modification applies to the Standard Mail Flats Mail Processing Cost Model.

7. Explicit Modeling of Mail Preparation

The Postal Service states that the current model includes the hours associated with mail preparation for the FSS in the calculation of the FSS productivities. See *id.* at 11. However, because such AFSM 100 preparation costs are included in the calculation of the AFSM 100 productivities, the Postal Service observes that a portion of the AFSM 100 preparation costs are allocated incorrectly to FSS prepared pieces through the Cost and Revenue Analysis (CRA) adjustment factor. See *id.* The Postal Service proposes to model AFSM 100 preparation costs using the methodology used in the Periodicals Flats Mail Processing Model. See *id.* This modification applies to the Standard Mail Flats Mail Processing Cost Model.

8. CRA Adjustment Factor Adjusted for the FSS

The Postal Service uses the CRA adjustment factor to calibrate the model to CRA costs and to distribute non-modeled costs to the appropriate rate category. *Id.* The Postal Service states that applying the CRA adjustment factor as is done in the current methodology would distort measured cost avoidances by overdistributing non-modeled costs to FSS pieces. *Id.* at 12. The Postal Service represents that it will calculate the CRA adjustment factor to ensure the non-modeled costs distributed to FSS pieces are equal to those distributed to Five-Digit pieces. *Id.* This modification applies to the Standard Mail Flats Mail Processing Cost Model.

9. FSS Realization Factor

The Postal Service represents that it introduced a FSS Realization Factor to measure the proportion of FSS eligible mail that is processed on the FSS. *Id.* at 12–13. According to the Postal Service, this FSS Realization Factor captures the fact that mail that destines in a FSS zone and arrives after the end of first-pass processing may be processed on the AFSM 100 rather than the FSS to avoid delay. *Id.* This modification applies to both the Standard Mail and Periodicals Flats Mail Processing Cost Models.

B. Section Two: Proposed Method for Calculating Delivery Costs

The Postal Service proposes a method to disaggregate delivery costs for Periodicals Flats, Bound Printed Matter Flats, Standard Flats and Carrier Route Flats (not including High Density or Saturation) between those destinating in FSS zones and those destinating in non-FSS zones. Petition, Proposal Seven: Section Two at 1. This method uses operational assumptions and models rather than data directly collected from cost systems, and calculates separate delivery costs for the relevant products based on whether pieces are destinating in FSS or non-FSS zones. *Id.* at 3.

The proposed computing method begins with a product's component group costs in three segments: Cost Segment 6, City Carrier In-Office Activities; Cost Segment 7, City Carrier Street Activities; and Cost Segment 10, Rural Carriers Office and Street Activities. *Id.* at 3–9. Within each cost segment, the purpose is to disaggregate costs into FSS zone costs and non-FSS zone costs. *Id.*

III. INITIAL COMMISSION ACTION

The Commission establishes Docket No. RM2015-16 for consideration of matters raised by the Petition. Additional information concerning the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Seven no later than September 25, 2015. Reply comments are due no later than October 16, 2015. Pursuant to 39 U.S.C. 505, Katalin K. Clendenin is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2015-16 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a

Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), filed August 5, 2015.

2. Comments are due no later than September 25, 2015. Reply comments are due no later than October 16, 2015.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Katalin K. Clendenin to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.
4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission

Ruth Ann Abrams
Acting Secretary